

FOUNDERS ENERGY LTD.
NINETEEN NINETY-SIX ANNUAL REPORT

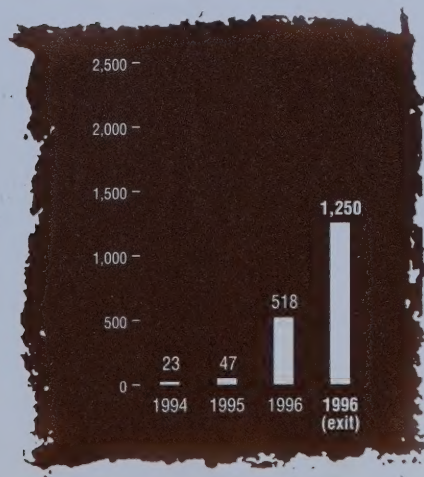
HIGHLIGHTS



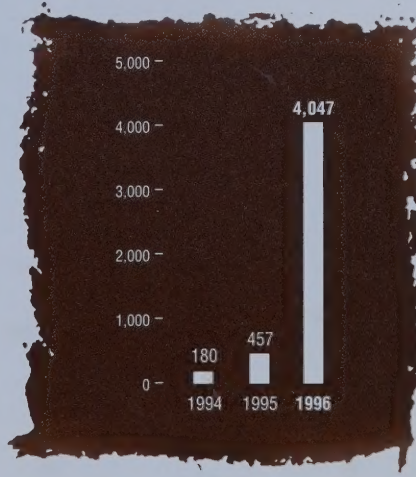
Financial	1996	1995	% Increase
<i>(000's except per share data)</i>			
Gross revenue	\$ 4,796	\$ 313	1,432 %
Cash flow (deficiency)	\$ 2,252	\$ (21)	-
Per share	\$ 0.16	\$ -	-
Net income (loss)	\$ 885	\$ (122)	-
Per share	\$ 0.06	\$ (0.01)	-
Capital expenditures	\$ 2,977	328	808 %
Property Acquisitions	\$ 6,345	475	1,235 %
Property dispositions	\$ (1,650)	-	-
Shareholders' equity	\$ 7,003	\$ 1,284	445 %
Weighted average shares outstanding	14,449	9,345	55 %
Operating			
Production			
Crude oil and Ngl's (Bopd)	479	39	1,128 %
Natural gas (Mcf)	395	81	388 %
Oil Equivalent (Boed)	518	47	1,002 %
Proven and probable reserves¹			
Crude Oil and Ngl's (MBoe)	3,365	343	881 %
Natural gas (Bcf)	6.8	1.1	518 %
Oil Equivalent (MBoe)	4,047	457	786 %
Reserve Value (15% DCF)	\$ 34,529	\$ 3,031	1,039 %
Average selling price (\$/Boe)	\$ 25.29	\$ 18.14	39 %
Netback (\$/Boe)	\$ 14.50	\$ 8.00	81 %

¹Probable reserves and values have been reduced by 50 percent to account for risk.

Daily Average Production (Boed)



Reserves – Proven & Probable (Mboe)



PRESIDENT'S MESSAGE



On behalf of the Board of Directors and staff of Founders Energy, I am pleased to report that 1996 was a banner year for the Company. Our strategy of undertaking a program of low-risk horizontal drilling, combined with the pursuit of quality, non-competitive acquisition or merger opportunities, has resulted in significant growth in production, reserves, cash flow and earnings for the year.

Financial and operational highlights for 1996 include:

- increased daily average production by over 1,000 percent;
- increased gross revenue by more than 1,400 percent;
- achieved cash flow of \$2.2 million or \$0.16 per share;
- increased proven reserves by more than 800 percent;
- achieved a proven reserve replacement ratio of 17 times;
- achieved proven reserve addition costs of \$4.08 per Boe;
- increased net asset value per share to \$1.40 in 1996 from \$0.27 in 1995;
- exited 1996 with daily average production of 1,250 Boed; and
- added several key people to the Founders technical and management team.

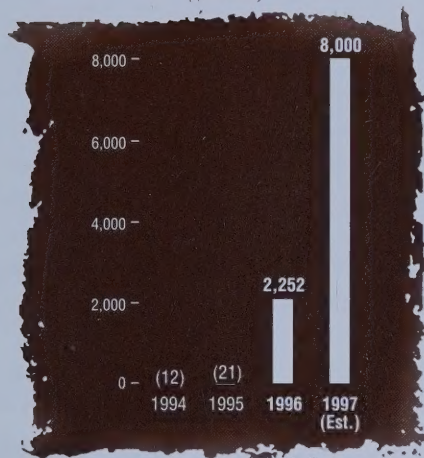
Key Acquisitions

During 1996, two key acquisitions helped to shape the future of the Company. As a result, we now have a diversified portfolio of operated and non-operated properties in southeast Saskatchewan and Alberta, providing long life reserves and a stable base of production and cash flow. These acquisitions also offer significant upside potential through exploitation and exploration, a fundamental criteria of any acquisition that we pursue.

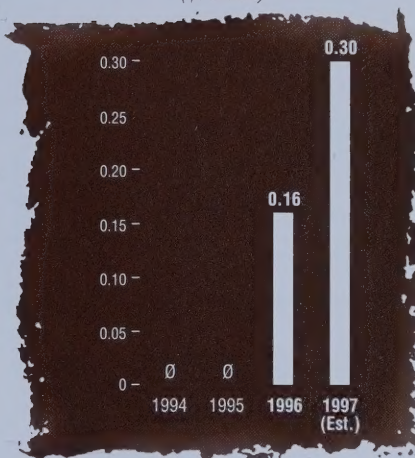
Southeast Saskatchewan Producing Property Acquisition

Founders completed the joint acquisition and subsequent rationalization of the southeast Saskatchewan assets of Reserve Royalty Corporation. As a result, we now operate and have high working interests in four key properties located at Hartaven, Weir Hill, Benson East and Hume. The transaction resulted in Founders acquiring 682 Mbbl of proven oil reserves for a net acquisition cost of \$0.71 per Boe. More important, it has provided Founders with substantial horizontal and exploration drilling potential, which we expect to contribute significantly to our growth in 1997.

Cash Flow
(\$'000's)



Cash Flow per Share
(\$/share)



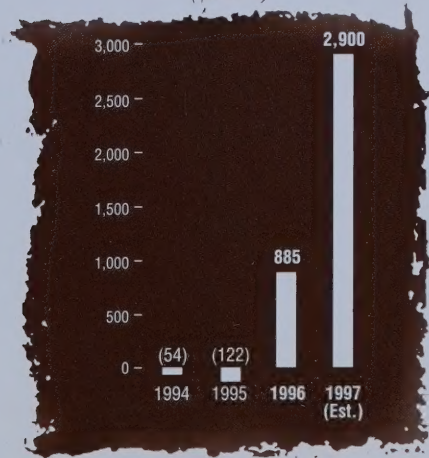
Golden Coast Amalgamation

In December 1996, Founders completed the acquisition of Golden Coast Energy Ltd. by way of an amalgamation, resulting in an increase of more than 600 Boed of production and 1,925 Mboe of proven reserves. The acquired reserves also increased the Company's reserve life index from six years to more than eight years. Subsequent to closing the amalgamation, Founders paid \$3.0 million to acquire a substantial portion of an overriding royalty that had been granted against Golden Coast production. The royalty purchase will result in a decrease in royalty obligations and a corresponding increase in cash flow of more than \$800,000 in 1997. The net cost of the Golden Coast acquisition, including the royalty buyback, was \$4.57 per Boe of proven reserves. The Golden Coast acquisition has given the Company a solid core of production from several large units located in Alberta and Saskatchewan, providing a stable base of cash flow to be re-employed in the Company's ongoing exploration and development activities.

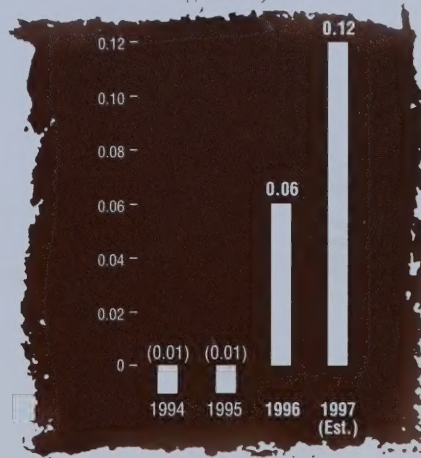
Operating Results

During 1996, Founders participated in drilling eight wells for an overall success rate of 88 percent. This included our participation in six successful horizontal wells in the Handsworth area of southeast Saskatchewan which contributed approximately 200 Bopd of net production to Founders for the year.

Earnings
(\$'000's)



Earnings per Share
(\$/share)



Average daily production increased by 1,002 percent from 47 Boed in 1995 to 518 Boed for 1996. The average sale price increased from \$18.14 per Boe in 1995 to \$25.29 per Boe in 1996, resulting in a corresponding increase in netbacks from \$8.00 per Boe to \$14.50 per Boe, respectively.

In the 1995 annual report, I presented forecasts for production, revenue, cash flow and cash flow per share for 1996. I am pleased to say that Founders exceeded or met all but one of these objectives. Our daily average production was 518 Boed in 1996 compared to our forecast of 601 Boed. The shortfall in production was almost entirely the result of the Golden Coast amalgamation closing in December, rather than in September as originally expected. The lower than forecast production levels were more than offset by higher than expected commodity prices and netbacks, resulting in gross revenue of \$4.8 million (Est. - \$4.6 million), cash flow of \$2.3 million (Est. - \$1.9 million) and cash flow per share of \$0.16 (Est. - \$0.14).

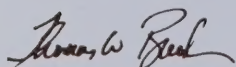
Outlook

We expect 1997 to be another year of record growth for the Company. Founders has a capital budget of \$10 million which includes the drilling of at least 20 wells, including up to nine horizontal wells and five exploration wells in southeast Saskatchewan. In March 1997, Founders signed a long term contract for a drilling rig that is capable of drilling both horizontal and deep exploration wells. Securing this rig will enable Founders to achieve its drilling and productions targets for the year.

During 1997, Founders will aggressively exploit Company operated lands in southeast Saskatchewan, primarily through horizontal drilling. We will also make a shift toward exploration in 1997 by drilling two deep Ordovician test wells in southeast Saskatchewan and by pursuing several other new internally generated exploration prospects in western Alberta and northeast British Columbia. Our low risk exploitation strategy, excluding the impact of any exploration success, will result in production averaging 1,700 Boed for the year and a target exit rate of 2,400 Boed.

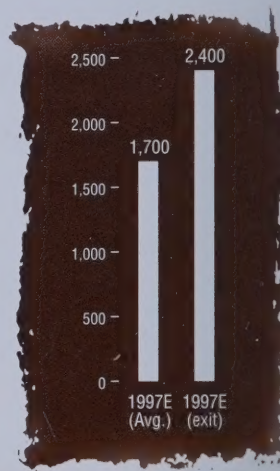
Our achievements in 1996 and our goals for the future are a reflection of the dedication, commitment and collective talents of our staff. In December 1996, we were pleased to add Tony Pantalone as Senior Geologist, Al Biette as Production Superintendent and Mark Walker as Controller. In March 1997, we announced the senior appointments of Kelly Cowan as Senior Vice President and Chief Operating Officer, Mark Oliver as Vice President Exploration and Joe Beardsworth as Vice President Engineering and Operations.

Founders has high quality assets and exciting exploration plans, which in conjunction with our exceptional pool of technical and managerial talent, will create the foundation for sustained profitable growth in the future. I would like to thank our directors for their valued guidance and our shareholders for their continued support.



Tom Buchanan
President and Chief Executive Officer
March 21, 1997

Forecasted Daily Average
Production (Boed)



OPERATIONS & EXPLORATION REVIEW



Founders strategy is to establish a balance between low-risk development drilling and high impact exploration. We also believe that it is prudent to utilize industry partners in our exploration plays to help mitigate the capital risk that is associated with these projects. Our adherence to this balanced program of exploration and development activity should result in the addition of proven reserves at costs well below industry average.

Operations

The tremendous growth in production and reserves that Founders achieved in 1996 can be attributed to our adherence to a cash flow oriented strategy of achieving growth through a balanced program of low cost exploitation, exploration and acquisition. The key elements of this strategy include:

- ☼ To explore for, acquire and develop quality, long life oil and gas reserves in areas where we have technical and operational expertise;
- ☼ To establish and maintain an inventory of quality exploration prospects;
- ☼ To maintain high working interests and operatorship in core areas of operation; and
- ☼ To aggressively pursue the exploitation potential on Company lands in southeast Saskatchewan.

Our strategy resulted in the following key events occurring during 1996:

- ☼ Participated in drilling six successful horizontal wells in the Handsworth area of southeast Saskatchewan during the first half of 1996, increasing daily average production by 200 Bopd;
- ☼ Completed a large producing property purchase which resulted in the Company acquiring four key operated properties located in the Hartaven, Weir Hill, Benson East and Hume areas of southeast Saskatchewan. These properties provide Founders with a strong base of production and cash flow. During 1997 we plan to fully exploit these properties with horizontal wells to maximize their production potential; and
- ☼ In December, Founders completed the acquisition of Golden Coast Energy Ltd. This resulted in the addition of approximately 1,925 MBoe of quality, long life oil and gas reserves and a stable base of production and cash flow from several large units located in the Pembina, Westeros, Wimborne and Twining-Trochu areas of Alberta, and the Fosterton and Weyburn areas of Saskatchewan. The operators of several of these units are planning active capital programs for 1997, which should result in an increase in production and reserves.

Drilling Activity

During 1996, Founders participated in drilling eight wells, including six successful horizontal oil wells in the Handsworth area of southeast Saskatchewan, one successful oil well in the Bellshill Lake area of Alberta and one dry and abandoned well in the Hume area of southeast Saskatchewan. These results are summarized below:

	1996		1995		1994	
	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>
Oil	7	1.51	2	0.36	5	0.92
Dry and Abandoned	1	0.66	1	0.50	3	1.06
TOTAL	8	2.17	3	0.86	8	1.98
Success Rate	88%		66%		63%	

Undeveloped Land Holdings

The following table sets out Founders undeveloped land holdings as at December 31, 1996:

	<i>Gross Acres</i>	<i>Net Acres</i>
Alberta	22,080	5,887
Saskatchewan	14,840	5,834
British Columbia	2,244	860
TOTAL	39,164	12,581

To date in 1997 we have added 8,726 net acres of undeveloped land on internally generated prospects. Founders has budgeted \$2.0 million for land acquisitions in 1997.

Reserves

Founders reserves have been evaluated effective December 31, 1996 by the independent engineering firm of Outtrim Szabo Associates Ltd. ("Outtrim"). The evaluations of future net production revenues are stated net of royalties, operating costs and future development costs and are prior to any provision for income taxes, overhead and interest costs. It should not be assumed that the discounted value of estimated future net production revenues is representative of the fair market value of the estimated petroleum and natural gas reserves. Probable reserve values and volumes have been reduced by 50 percent to account for risk. The following tables summarize the Outtrim Report:

Reserves at December 31, 1996

	Gross Reserves			Net Reserves		
	<i>Natural</i>			<i>Natural</i>		
	<i>Gas</i>		<i>Natural</i> <i>Gas</i>	<i>Gas</i>		<i>Natural</i> <i>Gas</i>
	<i>Oil</i>	<i>Liquids</i>		<i>Oil</i>	<i>Liquids</i>	
Proved Reserves	(Mbbbl)	(Mbbbl)	(Mmcf)	(Mbbbl)	(Mbbbl)	(Mmcf)
Producing	1,699	168	3,941	1,221	104	2,928
Non-Producing	24	8	1,638	16	6	1,348
Undeveloped	941	10	384	683	6	306
Total Proved	2,664	186	5,963	1,920	116	4,582
Probable Additional	483	32	858	360	18	629
Total Proved plus Probable	3,147	218	6,821	2,280	134	5,211

Estimated Share of Present Worth Values at December 31, 1996

Before Income Tax Discounted at

	0%	10%	15%	20%
Proved Reserves				
Producing	\$35,422	\$21,769	\$18,439	\$16,089
Non-Producing	2,260	1,204	953	780
Undeveloped	16,802	9,944	8,149	6,868
Total Proved	54,484	32,917	27,541	23,737
Probable Additional	12,104	5,267	4,094	3,359
Total Proved plus Probable	66,588	38,184	31,635	27,096
ARTC	4,198	3,228	2,894	2,624
TOTAL	\$70,786	\$41,412	\$34,529	\$29,720

The estimate of future net production revenues is based upon the following price forecast utilized in the Outtrim Report dated December 31, 1996:

Year	Oil		Natural Gas
	WTI	Alberta Field	Alberta Spot
	Cushing Oklahoma	Oil	Price
	(\$/Bbl)	(\$/Bbl)	(\$/Mcf)
1997	23.36	29.46	1.50
1998	24.81	30.84	1.65
1999	26.34	32.30	1.82
2000	27.96	33.82	2.00
2001	29.67	35.42	2.15

Reserve Reconciliation									
	Crude Oil & Ngl			Natural Gas			BOE		
	(Mbbbl)			(Mmcft)			(Mboe)		
	Proved	Probable	Total	Proved	Probable	Total	Proved	Probable	Total
At December 31, 1995	320	23	343	580	556	1,136	378	79	457
Additions	2,705	492	3,197	5,527	302	5,829	3,257	522	3,779
Revisions	-	-	-	-	-	-	-	-	-
Production	(175)	-	(175)	(144)	-	(144)	(189)	-	(189)
At December 31, 1996	2,850	515	3,365	5,963	858	6,821	3,446	601	4,047

Reserve Addition Costs

The following table presents the calculation of Founders reserve addition costs including revisions for 1996 and 1995:

	1996	1995
Finding and onstream costs		
Land acquisitions	\$ 47,799	\$ -
Drilling and completions	1,596,403	257,054
Seismic	426,554	12,359
Total finding costs	2,070,756	269,413
Equipment and facilities	776,591	54,238
Total finding and onstream costs	2,847,347	323,651
Acquisition costs	10,455,091	475,000
Total reserve addition costs	\$ 13,302,438	\$ 798,651
Proven reserve additions (Mboe)	3,257	225
Proven and probable reserve additions (Mboe)	3,774	294
Proven reserve addition costs (\$/Boe)	\$ 4.08	\$ 3.55
Proven and probable reserve addition costs (\$/Boe)	\$ 3.52	\$ 2.72

The three year moving average for proven reserve addition costs, including revisions, is \$4.09 per Boe and on a proven plus probable basis is \$3.51 per Boe.

1997 Operating Budget

Founders will continue to show strong growth in production and reserves in 1997, largely as a result of an aggressive horizontal drilling program in southeast Saskatchewan. We have budgeted to spend \$3.4 million on development drilling in 1997. During the first quarter of 1997 Founders drilled two successful dual leg horizontal wells at Hartaven and Weir Hill and three successful oil wells in the Pembina area. Our drilling plans include the drilling of up to nine additional horizontal wells in southeast Saskatchewan after spring breakup. In March 1997, Founders signed a long term contract for a drilling rig that is located in southeast Saskatchewan and is capable of drilling both horizontal and deep vertical wells.

In 1997 we plan to continue to make strategic acquisitions in our focus areas of operation. These acquisitions, combined with our aggressive development drilling plans, should result in significant growth in production and proven reserves. As we continue to grow and develop our core areas of operation, we will undertake an ongoing review of our property portfolio with the intention of rationalizing non-core assets and re-employing the proceeds of these divestitures into core areas of operation or into internally generated exploration prospects.

Exploration

Founders will become an aggressive explorer in 1997. The Company has budgeted \$2.6 million for exploratory drilling and plans to drill up to nine exploratory wells on internally generated prospects. Our exploration efforts will be concentrated in areas that offer multi-zone potential and where our exploration staff has had commercial success.

Founders will continue to utilize our geophysical expertise to complement our geological mapping on all internally generated prospects. We believe that the use of sophisticated geophysical mapping reduces the risk associated with drilling. During 1996, Founders shot or acquired 15 square kilometres of 3-D seismic and 104 kilometres of 2-D seismic on Company prospects. In addition, the Company acquired over 200 kilometres of 2-D seismic pursuant to several property acquisitions, primarily in southeast Saskatchewan.

Founders will strive to control operatorship and maintain a 50 percent working interest on our internally generated exploration prospects. We also intend to increase our undeveloped land holdings through acquisitions and farmins.

Beginning in late 1995, and throughout 1996, there has been a significant increase in exploratory drilling activity in the Midale area of southeast Saskatchewan, targeting Ordovician light oil reserves at depths of approximately 2,600 metres. Successful vertical wells can produce at rates in excess of 500 Bopd and horizontal wells have produced at significantly higher rates.

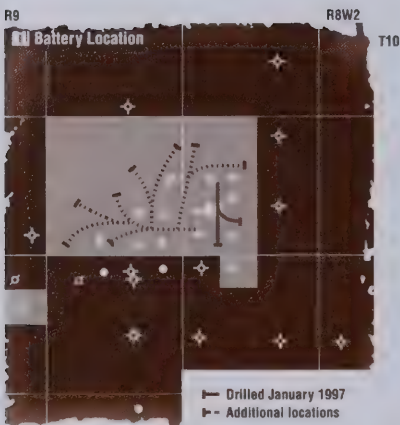
The Ordovician play has created a tremendous increase in exploration activity in southeast Saskatchewan, and we believe that Founders is extremely well positioned to compete aggressively on this high impact play. Founders has a strong land base, a quality inventory of 2-D and 3-D seismic, Company owned and operated facilities and a contracted drilling rig, giving us a strong competitive advantage. We plan to drill at least two Ordovician wells in 1997 on significant seismic anomalies that we have identified on Company lands. In addition, we have identified several other seismic anomalies and are poised to acquire additional lands on this play.

The geographic expansion of the Ordovician play, combined with deep rights reversion occurring in 1998, will create an exciting and competitive environment in southeast Saskatchewan for several years to come.

MAJOR AREAS OF ACTIVITY



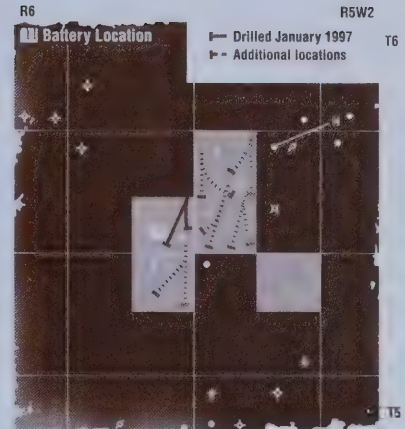
Hartaven * Southeast Saskatchewan



The Hartaven property is located approximately 55 kilometres northeast of Weyburn. Founders operates and has an average 70 percent working interest in 12 producing Kisbey/Alida oil wells, two disposal wells, a gathering system and two batteries. An 8.1 square kilometre 3-D seismic program was shot in the fall of 1996 to evaluate the potential of drilling horizontal wells to further develop the pool. In January 1997, Founders operated the drilling and completion of one (0.62 net) dual leg horizontal well. Current production from this well is approximately 250 (150 net) Bopd. Founders plans to drill up to four (3.3 net) additional horizontal wells in 1997. Production facilities will be consolidated and upgraded in early 1997 to reduce costs and handle the anticipated fluid volumes resulting from the drilling program.

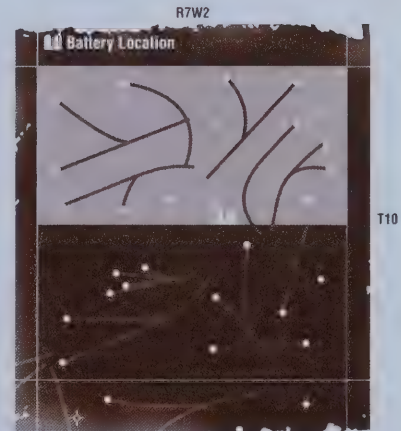
Weir Hill ❁ *Southeast Saskatchewan*

Weir Hill is located approximately 45 kilometres northeast of Estevan. Founders operates and has an average 40 percent working interest in six producing Frobisher oil wells, a disposal well, a gathering system and a battery. In the fall of 1996, a 5.6 square kilometre 3-D seismic program was shot to evaluate the potential for further development of the pool with horizontal drilling. In January 1997, Founders drilled and completed one (0.42 net) dual leg horizontal well, which is currently producing at a rate of 255 (107 net) Bopd. Plans for 1997 include the drilling of up to five (2.0 net) additional horizontal wells.



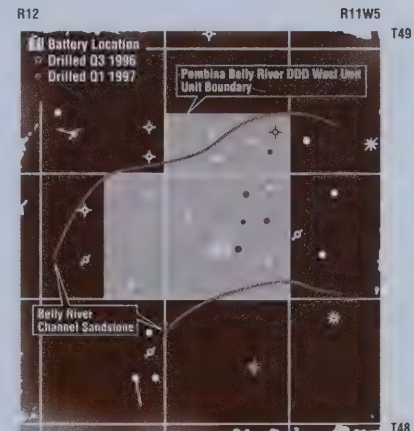
Handsworth ❁ *Southeast Saskatchewan*

The Handsworth area is located approximately 70 kilometres northeast of Weyburn. Founders has an average 23 percent working interest in ten producing Alida oil wells, a disposal well, a gathering system and a battery. Six (1.4 net) successful horizontal wells were drilled in 1996 based on our interpretation of a 3-D seismic program. Also during the year, one vertical well was converted to a water disposal well and a battery was constructed and brought on stream, significantly increasing fluid-handling capacity and reducing operating costs.



Pembina ❁ *West Central Alberta*

Founders has an average 22 percent working interest in the Pembina Belly River DDD West Unit located 40 kilometres west of Drayton Valley. Thé unit is operated by Norcen and was acquired as part of the Golden Coast acquisition in December 1996. The Belly River DDD pool offers significant development potential and the operator has an aggressive drilling program planned for 1997. Two infill wells were drilled during the third quarter of 1996 and each well was placed on production at a rate of approximately 200 (44 net) Bopd. Three additional infill oil wells and one step-out dry hole were drilled in the first quarter of 1997. The first well was placed on production in early March 1997 and is currently producing in excess of 250 (55 net) Bopd. The second and third wells will commence production during the second quarter of 1997. Two additional development locations are planned for the third quarter and up to five additional drilling locations have been identified.



Production by Area

The following table sets out Founders daily average production by area:

	Year ended					
	December 31, 1996				December	March
	Average Production				1996	1997
	<i>Avg</i> <i>W.I.%</i>	<i>Oil</i> <i>(Bopd)</i>	<i>Gas</i> <i>(Mcf/d)</i>	<i>Boe</i> <i>(10:1)</i>	<i>Exit Rate</i> <i>(Boed)</i>	<i>Exit Rate</i> <i>(Boed)</i>
Operated Areas						
Hartaven, SK.	70.0%	62	-	62	120	270
Weir Hill, SK.	40.0%	12	-	12	35	150
Benson East, SK.	67.0%	29	-	29	55	40
Hume, SK.	54.0%	27	-	27	70	55
Total Operated		130	-	130	280	515
Non Operated Areas						
Pembina, AB. ⁽¹⁾	22.0%	18	-	18	200	250
Handsworth, SK.	23.5%	219	-	219	190	140
Weyburn Unit, SK. ⁽¹⁾	0.5%	8	-	8	100	110
Fosterton Unit, SK. ⁽¹⁾	6.2%	6	-	6	70	70
Other Areas	Varies	98	394	137	410	415
Total Non Operated		349	394	388	970	985
Total Production		479	394	518	1,250	1,500

⁽¹⁾ Properties were acquired from Golden Coast Energy Ltd. effective December 4, 1996. Therefore, production averages for 1996 reflect only 27 days of production averaged over the entire year.

MANAGEMENT'S DISCUSSION & ANALYSIS



The following discussion and analysis compares the financial and operating results for 1996 with those of 1995 and should be read in conjunction with the audited financial statements of Founders for the year ended December 31, 1996.

Operations

Operating income for the year ended December 31, 1996 increased 1,889 percent to \$2,749,220 from \$138,214 in 1995. This increase reflects substantial growth in production volumes which averaged 518 Boed in 1996 compared to 47 Boed in 1995.

Operating Results

<i>Year ended December 31</i>	<i>1996</i>	<i>1995</i>	<i>Percent Change</i>
Gross Production Revenue	\$ 4,795,797	\$ 313,187	1,432 %
Royalties(net of ARTC)	(1,098,954)	(68,416)	1,506 %
Production Expenses	(947,623)	(106,557)	789 %
Operating Income	\$ 2,749,220	\$ 138,214	1,889%
Production (Boed)	518	47	1,002%

Netbacks Per Boe

<i>Year ended December 31</i>	<i>1996</i>	<i>1995</i>	<i>Percent Change</i>
Sales Price	\$ 25.29	\$ 18.14	39 %
Royalties(net of ARTC)	5.79	3.97	46 %
Operating Costs	5.00	6.17	(19 %)
Netback	\$ 14.50	\$ 8.00	81%

On a Boe basis the sales price averaged \$25.29 in 1996 compared to \$18.14 in 1995 with the increase attributable to improvement in world oil prices. Founders oil price averaged \$26.46 per barrel in 1996, compared to \$18.72 per barrel in 1995, with the increase largely accounted for by an improvement in WTI which averaged \$22.03 U.S. per barrel in 1996 compared to \$18.39 U.S. per barrel in 1995. Founders average gas price in 1996 was \$1.11 per Mcf compared to \$0.90 in 1995. This increase was largely a result of an upward price trend in the fourth quarter and the completion of the Golden Coast Energy Ltd. acquisition in December 1996, which has increased average daily gas volumes to 2.3 Mmcfd from 0.2 Mmcfd.

Royalties, net of ARTC, increased to \$5.79 per Boe in 1996 from \$3.97 per Boe in 1995. As a percentage of production revenue, royalties averaged 22.9 percent in 1996 compared to 21.8 percent in 1995. The increased rate in 1996 reflects price-sensitive oil royalties which have been impacted by higher oil prices.

Production expenses totalled \$947,623 in 1996 (\$5.00 per Boe) compared to \$106,557 (\$6.17 per Boe) in 1995. The reduction, on a Boe basis, was largely accounted for by the significant increase in volumes and improved fluid handling and transportation costs in the Handsworth area of southeast Saskatchewan. As well, the Company operated four of its five major properties in southeast Saskatchewan during 1996. The increase in the percentage of production that the Company operates allows for the implementation of production optimization programs to further reduce operating costs.

Acquisition of Golden Coast Energy Ltd.

Effective December 4, 1996 the Company acquired all of the outstanding shares of Golden Coast Energy Ltd. ("Golden Coast"). Each Golden Coast shareholder received one common share and one quarter common share purchase warrant of Founders for every 1.75 common share of Golden Coast Energy Ltd. As a result, the Company issued 5,261,139 common shares with an ascribed value of \$2,104,455 and 1,315,103 common share purchase warrants exercisable at a price of \$0.65 per share until December 4, 1997 and thereafter at a price of \$0.75 per share until June 4, 1998. The transaction has been accounted for using the purchase method with the results of operations included in the statement of operations from the date of the acquisition.

Subsequent to the completion of the Golden Coast amalgamation, Founders acquired a significant gross overriding royalty interest from a third party for \$3.0 million. This acquisition has reduced royalty obligations and will result in a corresponding increase in cash flow of approximately \$800,000 in 1997.

General and Administration Expense

General and administration expense, before capitalization, increased to \$819,140 for 1996 compared to \$267,034 in 1995. This increase is the result of the greater activity by the Company as well as additional technical, managerial and support staff. Capitalized administration costs directly associated with exploration and development activities amounted to \$441,510 in 1996 and \$110,763 in 1995. As a result, net general and administrative expenses were \$377,630 in 1996 compared to \$156,271 in 1995.

On a Boe basis, general and administrative expenses decreased to \$1.99 in 1996 from \$9.05 in 1995 when the Company was in its early development stages. These rates per Boe will continue to decrease as production growth is achieved. Founders currently has nine full time employees at head office and one full time employee in the Estevan office.

Interest Expense

Interest expense increased to \$119,222 in 1996 compared to \$10,059 in 1995. The increase in 1996 was partially accounted for by the March 1, 1996 acquisition of producing properties in southeast Saskatchewan which was financed partly by debt. This debt was subsequently repaid in August 1996 when the properties were rationalized. Debt levels increased during the fourth quarter of 1996 largely due to increased capital spending and the buyback of the \$3.0 million gross overriding royalty subsequent to the Golden Coast amalgamation. This resulted in the fourth quarter interest expense accounting for approximately 45 percent of the entire year's expense.

Depletion and Depreciation

Depletion and depreciation amounted to \$954,370 for 1996 compared to \$100,513 in 1995. The increase of \$ 853,857 was due to greater capital spending, acquisitions and increased production. This was accompanied by an increase in proven reserves, resulting in the depletion and depreciation rate per Boe decreasing to \$5.03 in 1996 from \$5.82 in 1995.

Income Taxes

The Company did not pay federal or provincial income taxes in either 1996 or 1995. For the year ended December 31, 1996 the Company has recorded deferred income taxes of \$413,047 on its statement of operations. This amount differs from the deferred income tax balance recorded on the balance sheet of \$303,162 as the tax effect of share issue costs have been offset to share capital.

The following table summarizes Founders estimated tax pools at December 31, 1996.

	<i>\$000's</i>
Canadian Exploration Expense	\$ 840
Canadian Development Expense	1,920
Canadian Oil and Gas Property Expense	5,985
Undepreciated Capital Cost	3,590
Non-Capital Losses	490
Other	975
Total	\$ 13,800

Cash Flow and Earnings

	1996			1995		
	<i>Amount</i>	<i>Per Boe</i>	<i>Per Share</i>	<i>Amount</i>	<i>Per Boe</i>	<i>Per Share</i>
Netback	\$2,749,220	\$ 14.50	\$ 0.19	\$ 138,214	\$ 8.00	\$ 0.02
Other income	-	-	-	6,890	0.40	-
	2,749,220	14.50	0.19	145,104	8.40	0.02
General and administrative	377,630	1.99	0.02	156,271	9.05	0.02
Interest expense	119,222	0.63	0.01	10,059	0.58	-
	496,852	2.62	0.03	166,330	9.63	0.02
Cash flow(deficiency)						
from operations	2,252,368	11.88	0.16	(21,226)	(1.23)	-
Depletion and depreciation	954,370	5.03	0.07	100,513	5.82	0.01
Deferred income tax	413,047	2.18	0.03	-	-	-
	1,367,417	7.21	0.10	100,513	5.82	0.01
Net income (loss)	\$ 884,951	\$ 4.67	\$ 0.06	\$ (121,739)	\$ (7.05)	\$ (0.01)

Cash flow for 1996 was \$2,252,368 compared to a deficiency of \$21,226 in 1995. This increase reflects the significant increase in production volumes as well as improved netbacks. Net income in 1996 increased to \$884,951 compared to a loss of \$121,739 in 1995. The 1996 net income represents a return on year-end equity of 13 percent.

Cash flow for 1996 was \$0.16 per share compared to nil in 1995 and earnings were \$0.06 per share in 1996 compared to a loss of \$0.01 in 1995. These increases highlight the production volume growth achieved in 1996. The weighted average shares outstanding for 1996 were 14,449,050 compared to 9,345,300 in 1995.

Liquidity and Capital Resources

Capital Expenditures and Funding Expenditures	<i>Year Ended December 31,</i>	
	<i>1996</i>	<i>1995</i>
Property, plant and equipment	\$ 2,977,061	\$ 328,044
Acquisition of oil and gas properties	6,345,392	475,000
Acquisition of Golden Coast Energy Ltd.		
- property, plant and equipment	5,759,699	-
Disposition of oil and gas properties	(1,650,000)	-
Future site restoration costs	5,239	-
Acquisition of Golden Coast Energy Ltd.		
- future site restoration	(83,815)	-
Total expenditures	\$13,353,576	\$ 803,044
Funded By:		
Cash flow (deficiency) from operations	\$ 2,252,368	\$ (21,226)
Issue of common shares	3,635,992	344,610
Issue of special warrants	1,278,250	-
Increase in long term debt	5,055,000	205,000
Change in working capital	1,131,966	274,660
Total funds	\$13,353,576	\$ 803,044

During the year, the Company raised \$976,005 pursuant to the private placement of 2,973,000 flow-through common shares compared to \$344,610 on the private placement of 1,789,500 flow-through common shares in 1995. Also in 1996, the Company completed private placements for an additional 1,485,000 common shares for gross proceeds of \$572,000 and issued 188,824 common shares upon exercise of options for gross proceeds of \$43,283. In December 1996, the Company completed a private placement of 1,704,333 special warrants on a flow through basis for gross proceeds of \$1,278,250. Issue costs in respect of the 1996 transactions, net of tax, were \$139,854. On December 4, 1996 the Company issued 5,261,139 common shares at an ascribed value of \$2,104,455 to acquire all of the outstanding shares of Golden Coast Energy Ltd.

Effective November 28, 1996 the Company established an \$8.0 million credit facility with a Canadian chartered bank and at December 31, 1996 the Company had drawn \$5.1 million against this facility. Based on our year end long term debt of \$5.1 million and 1996 annual cash flow of \$2.2 million, the debt to cash flow ratio for 1996 was 2.3 to 1. For 1997, the debt to cash flow ratio is expected to be less than one.

Stock Trading Activity

	<i>1996</i>	<i>1995</i>
High	\$ 0.80	\$ 0.21
Low	\$ 0.15	\$ 0.10
Close	\$ 0.65	\$ 0.16
Volume (000's)	3,346	215

Net Asset Value

Founders calculates net asset value per common share based on the pre-tax value of its reserves using a 15 percent discount factor as follows:

Net asset value (000's except per share data)	1996	1995
Present value of reserves, discounted at 15%, before income taxes and risking probable reserves by 50%	\$ 34,529	\$ 3,031
Undeveloped land	752	284
Other assets	600	-
Working capital deficiency	(1,417)	(285)
Long term debt	(5,140)	(85)
Net asset value - basic	\$ 29,324	\$ 2,945
Proceeds on conversion of warrants, options and other convertible instruments	3,444	297
Net asset value - fully diluted	\$ 32,768	\$ 3,242
Basic common shares outstanding	21,001	11,093
Fully diluted common shares outstanding	28,797	12,038
Net asset value per basic common share	\$ 1.40	\$ 0.27
Net asset value per fully diluted common share	\$ 1.14	\$ 0.27

Commodity Prices

Strong world demand for crude oil should help offset the increase in supply resulting from the resumption of oil exports from Iraq and from increased exploration activity in South America and the Gulf Coast. As a result, Founders believes that crude oil prices will remain strong for 1997 with WTI averaging in excess of \$20 U.S. per barrel. Although there continues to be volatility in the North American natural gas marketplace, there has been continued strong demand for natural gas resulting from a colder than expected winter and a higher than expected drawdown of storage gas. This has resulted in a general strengthening of natural gas prices. We believe that the spot market price for natural gas will remain strong for 1997 averaging between \$1.50 and \$1.60 per thousand cubic feet.

Business Risks

The oil and gas industry is subject to numerous risks that can affect the growth and profitability of the Company. These risks include the ability of the Company to find and develop new reserves in economic quantities, fluctuations in commodity prices and exchange rates, the ability of the Company to access financing and the supply and demand for oil and natural gas. Founders has assembled a management team with extensive industry experience and has developed a strategy of finding, developing and acquiring low cost, long life reserves in areas with developed operational infrastructure, year round access and close proximity to markets. Although exploration risk is an inherent part of the oil and gas business, Founders limits exploration risk by employing highly competent technical staff and by using leading edge technology such as 3-D seismic and computerized mapping tools. To date, the Company has not implemented a strategy of hedging commodity prices. However, management endeavors to stay informed of commodity price trends and may consider incorporating a hedging strategy in the future.

Sensitivities

The following table sets out the sensitivities of Founders cash flow to key operational and financial assumptions:

	Cash Flow	
	<i>Amount</i> (000's)	<i>Per</i> <i>Share</i>
Operational		
+/- 100 barrels per day - oil	\$ 549	\$ 0.02
+/- 1 million cubic feet per day - gas	\$ 259	\$ 0.01
Financial		
+/- \$1.00 U.S. - WTI	\$ 560	\$ 0.02
+/- \$0.10 Cdn - Gas price	\$ 88	\$ -
+/- \$0.01 Cdn/U.S. exchange rate	\$ 129	\$ 0.01

These sensitivities are based on anticipated average 1997 production volumes of 1,450 barrels of oil per day and 2.5 million cubic feet of gas per day.

Business Prospects

The acquisitions of the assets of Reserve Royalty Corporation and of Golden Coast Energy Ltd. have added substantial production, reserves and cash flow which have significantly enhanced the financial strength of the Company. These acquisitions have also provided Founders with significant growth potential through exploitation and exploration particularly on Company operated lands in southeast Saskatchewan. With a strong management team, a qualified and proven technical team, a solid base of production and cash flow and a quality inventory of internally generated prospects, Founders' future growth prospects remain excellent.

Corporate Governance

The Board of Directors of Founders Energy Ltd. is responsible for directing issues which are pivotal to determining corporate strategy and direction of the Company. The Board considers, among other things, strategic business developments such as significant acquisitions, financing proposals and other matters requiring Board approval by law.

The Board of Directors comprises five members, of whom three are independent and unrelated and two are senior management of the Company. All committees of the Board of Directors have more external directors than senior management representatives, thus ensuring the independent functioning of the Board and all committees.

Founders has a separate Audit Committee of the Board and will establish a Compensation Committee during 1997. The Audit Committee has three members, two of whom are independent and unrelated and one of whom is a representative of senior management. The Compensation Committee will be comprised of a majority of independent and unrelated directors. The Compensation Committee will meet periodically to consider and approve compensation issues for all officers and certain employees.

MANAGEMENT'S REPORT

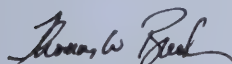


The management of Founders Energy Ltd. is responsible for the integrity and objectivity of the information included in this Annual Report and for the consistency between the consolidated financial statements and other financial and operating data contained elsewhere in the report. The consolidated financial statements have been prepared in accordance with accounting principals generally accepted in Canada and in accordance with accounting policies detailed in the notes to the consolidated financial statements. Where necessary, the statements include amounts based on management's informed judgements and estimates.

Management maintains a system of internal controls to provide reasonable assurance that all of the Company's assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

Price Waterhouse, Chartered Accountants, appointed by the shareholders, have audited the consolidated financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee includes a majority of independent directors who are not employees of the Company. The Committee reviews the financial content of the Annual Report and reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements.



Thomas W. Buchanan
President and Chief Executive Officer



Mark N. Walker
Controller

AUDITORS' REPORT



To the Shareholders of Founders Energy Ltd.

We have audited the consolidated balance sheet of Founders Energy Ltd. as at December 31, 1996 and 1995 and the consolidated statements of operations and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Calgary, Canada
March 7, 1997

CONSOLIDATED BALANCE SHEET



As at December 31

	1996	1995
<i>Assets</i>		
Current assets		
Cash	\$ 33,553	\$ -
Accounts receivable	1,793,139	99,122
Share subscriptions	-	42,500
Prepays	77,465	6,750
	1,904,157	148,372
Property, plant and equipment (Note 3)	14,017,712	1,653,679
	\$ 15,921,869	\$ 1,802,051
<i>Liabilities</i>		
Current liabilities		
Bank indebtedness	\$ -	\$ 10,544
Accounts payable and accrued liabilities	2,620,759	302,464
Current portion of long-term debt (Note 4)	700,000	120,000
	3,320,759	433,008
Long-term debt (Note 4)	5,140,000	85,000
Provision for future site restoration	154,815	-
Deferred income taxes (Note 7)	303,162	-
<i>Shareholders' Equity</i>		
Share capital and special warrants (Note 5)	6,294,332	1,460,193
Retained earnings (deficit)	708,801	(176,150)
	7,003,133	1,284,043
	\$ 15,921,869	\$ 1,802,051

Approved by the Board of Directors:

Thomas W. Buchanan
Director

M.H. (Mike) Shaikh
Director

CONSOLIDATED STATEMENT OF OPERATIONS AND
RETAINED EARNINGS (DEFICIT)



	<i>For the year ended December 31</i>	
	<i>1996</i>	<i>1995</i>
Revenue		
Gross production revenue	\$ 4,795,797	\$ 313,187
Less: Royalties (net of ARTC)	1,098,954	68,416
	3,696,843	244,771
Other Income	-	6,890
	3,696,843	251,661
Expenses		
Production	947,623	106,557
General and Administrative	377,630	156,271
Interest	119,222	10,059
Depletion and depreciation	954,370	100,513
	2,398,845	373,400
Income (loss) before income taxes	1,297,998	(121,739)
Deferred income taxes (Note 7)	413,047	-
Net Income (loss) for the year	884,951	(121,739)
Deficit at beginning of year	(176,150)	(54,411)
Retained earnings (deficit) at end of year	\$ 708,801	\$ (176,150)
Net Income (loss) per common share (Note 6)	\$ 0.06	\$ (0.01)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION



	<i>For the year ended December 31</i>	
	<i>1996</i>	<i>1995</i>
Cash provided by (used in) operating activities		
Net income (loss) for the year	\$ 884,951	\$ (121,739)
Add non-cash items:		
Depletion and depreciation	954,370	100,513
Deferred income tax	413,047	-
Cash flow (deficiency) from operating activities	2,252,368	(21,226)
Net change in non-cash working capital	222,134	15,580
	<u>2,474,502</u>	<u>(5,646)</u>
Cash provided by (used in) investing activities		
Acquisition of oil and gas properties	(6,345,392)	(475,000)
Expenditures on property, plant and equipment	(2,977,061)	(328,044)
Proceeds on disposition of oil and gas properties	1,650,000	-
Site restoration costs	(5,239)	-
Acquisition of Golden Coast Energy Ltd.	(2,279,455)	-
	<u>(9,957,147)</u>	<u>(803,044)</u>
Cash provided by (used in) financing activities		
Increase in long term debt	2,570,000	85,000
Issue of common shares	1,531,537	344,610
Issue of common shares to acquire Golden Coast Energy Ltd.	2,104,455	-
Issue of special warrants	1,278,250	-
Share subscriptions	42,500	(42,500)
	<u>7,526,742</u>	<u>387,110</u>
Increase (decrease) in cash	<u>44,097</u>	<u>(421,580)</u>
Cash (bank indebtedness) beginning of year	<u>(10,544)</u>	<u>411,036</u>
Cash (bank indebtedness) end of year	<u>\$ 33,553</u>	<u>\$ (10,544)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



December 31, 1996



SIGNIFICANT ACCOUNTING PRINCIPLES

(a) **Basis of presentation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

(b) **Joint venture operations**

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others. The financial statements reflect only the Company's proportionate interest in such activities.

(c) **Property, plant and equipment**

Oil and gas

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such amounts include land acquisition costs, geological and geophysical costs, carrying costs of non-productive properties, costs of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs.

Unimpaired costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to depletion until such time as the properties are proved.

The provision for depletion and depreciation is determined using the unit-of-production method based on the Company's share of gross proven reserves of oil and gas. Reserves and production of gas and associated liquids are converted into equivalent barrels of oil based on relative energy content.

Gains or losses on the disposition of oil and gas properties are not recognized in the statements of earnings unless the depletion and depreciation rate would be changed by 20 percent or more.

Oil and gas properties are subject to a ceiling test under which their carrying value, net of deferred income taxes and accumulated provision for site restoration costs, is limited to the undiscounted future net revenue from production of estimated proven oil and gas reserves, based on year end commodity prices, plus the unimpaired costs of unproved properties less estimated future administration, interest, site restoration costs and income taxes.

Site restoration

The provision for estimated site restoration costs is determined using the unit-of-production method. The provision is included in depletion and depreciation expense.

Office equipment

Office equipment is recorded at cost and depreciated using the straight-line basis at the following rates:

Computer hardware and software	33%
Office equipment	20%

(d) **Flow-Through Shares**

The Company provides for the estimated future effect on income taxes related to flow-through shares as a reduction of property, plant and equipment at the time the qualified expenditures are renounced.

(e) **Financial Instruments**

The Company's financial instruments that are included in the consolidated balance sheet are comprised of accounts receivable, current liabilities and long-term debt.

(i) Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the consolidated balance sheet, including long-term debt, approximate their carrying amount due to the short-term maturity of those instruments and the floating prime rate applied to long-term debt.

(ii) Credit Risk

Virtually all of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.



ACQUISITION OF GOLDEN COAST ENERGY LTD.

Effective December 4, 1996 the Company acquired all of the outstanding shares of Golden Coast Energy Ltd. Each Golden Coast Energy Ltd. shareholder received one common share of Founders for every 1.75 Golden Coast Energy Ltd. share. This resulted in the Company issuing 5,261,139 common shares with an ascribed value of \$2,104,455.

This transaction has been accounted for using the purchase method with the results of operations included in the consolidated statement of operations from the date of the acquisition. The total purchase price was allocated to assets and liabilities as follows:

Net assets acquired and liabilities assumed

Property, plant and equipment	\$ 5,759,699
Working capital deficiency	(911,429)
Bank debt	(2,485,000)
Site restoration	(83,815)
	<hr/>
	\$ 2,279,455

Consideration

Shares issued	\$ 2,104,455
Acquisition costs incurred	175,000
Total consideration	<hr/>
	\$ 2,279,455



PROPERTY, PLANT AND EQUIPMENT

<i>December 31, 1996</i>	<i>Cost</i>	<i>Accumulated depletion and depreciation</i>	<i>Net Book Value</i>
Oil and gas properties	\$ 14,854,919	\$ 963,720	\$ 13,891,199
Office equipment	182,942	56,429	126,513
Total	\$ 15,037,861	\$ 1,020,149	\$ 14,017,712

<i>December 31, 1995</i>	<i>Cost</i>	<i>Accumulated depletion and depreciation</i>	<i>Net Book Value</i>
Oil and gas properties	\$ 1,742,468	\$ 119,564	\$ 1,622,904
Office equipment	53,228	22,453	30,775
Total	\$ 1,795,696	\$ 142,017	\$ 1,653,679

The Company has capitalized general and administrative costs for the year ended December 31, 1996 of \$441,510 (December 31, 1995 - \$110,763). Costs associated with unproved properties excluded from costs subject to depletion for the year ended December 31, 1996 totaled \$597,092 (December 31, 1995 - \$175,428)



LONG-TERM DEBT

	<i>December 31</i>	
	<i>1996</i>	<i>1995</i>
Revolving bank term facility	\$ 5,140,000	\$ -
Reducing bank term facility	-	205,000
Convertible series I debentures	700,000	-
	5,840,000	205,000
Less: current portion of long term debt	700,000	120,000
	\$ 5,140,000	\$ 85,000

The Company has an \$8.0 million credit facility with a Canadian chartered bank. Under the terms of the facility, there is a \$6.5 million revolving bank term facility bearing interest at bank prime plus 1/4 percent and a \$1.5 million reducing bank term facility bearing interest at bank prime plus 1/2 percent. The credit facility is subject to an annual review and specifies no repayment terms provided certain covenants related to the facilities are met. As collateral security, the Company has pledged a \$15 million floating charge debenture against all of its assets and a fixed charge debenture against certain of its petroleum and natural gas properties. At December 31, 1996, the Company had drawn \$5,140,000 against its revolving bank term facility.

The Convertible Series I Debentures bear interest at eight percent per annum and mature on August 11, 1997. The debentures are convertible into common shares, on or before the maturity date, at a conversion price of \$0.60 per share.



SHARE CAPITAL AND SPECIAL WARRANTS

(a) Authorized

Unlimited number of common voting shares

Unlimited number of preferred shares, issuable in series

(b) Issued

	Year ended December 31		1995	
	1996		1995	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	11,092,500	\$ 1,460,193	9,303,000	\$ 1,115,583
Private placement of flow-through common shares	2,973,000	976,005	1,789,500	344,610
Private placement of common shares	1,485,000	572,000	-	-
Shares issued to acquire Golden Coast Energy Ltd.	5,261,139	2,104,455	-	-
Shares issued on exercise of stock options	188,824	43,283	-	-
Share issue costs, net of tax	-	(139,854)	-	-
Share capital at end of year	21,000,463	5,016,082	11,092,500	1,460,193
Special warrants	-	1,278,250	-	-
Share capital and special warrants at end of year	21,000,463	\$ 6,294,332	11,092,500	\$ 1,460,193

During the year, the Company renounced \$427,900 of qualified capital expenditures to the holders of flow-through shares and recorded the tax effect of these renunciations of \$189,988. In 1997 the Company will renounce \$1,065,993 of qualified capital expenditures associated with flow-through shares outstanding at December 31, 1996.

(c) Special Warrants

On December 5, 1996, 1,704,333 flow-through special warrants were issued by the Company at \$0.75 per special warrant. Each warrant entitles the holder thereof to acquire one common share at no additional cost.

(d) Shares Reserved

(i) Employee Incentive Stock Option Plan

The Company has an Employee Incentive Stock Option Plan ("Plan") which is administered by the Board of Directors of the Company. All full-time employees, officers and all directors of the Company are eligible to participate in the Plan. Under the terms of the Plan, the Company has reserved an amount equal to ten percent of the issued and outstanding shares of the Company for stock options. The following table summarizes transactions during the past two years pursuant to the Plan:

Year ended December 31	1996	1995
Outstanding at beginning of year	945,300	900,000
Granted during the year	1,552,500	270,300
Exercised during the year	(188,824)	-
Cancelled during the year	(75,000)	(225,000)
Outstanding at end of year	2,233,976	945,300

Stock options are exercisable at prices ranging from \$0.10 to \$0.75 per common share expiring at dates between November 28, 1999 and December 10, 2001.

(ii) Common Share Purchase Warrants

The Company has reserved 2,691,353 common shares which attach to 3,790,103 common share purchase warrants with exercise prices ranging from \$0.50 to \$0.75 which expire at various dates through to June 4, 1998.

(iii) Convertible Debentures

The Company has reserved 1,166,667 common shares in respect of the \$700,000 of Series I Convertible Debentures which mature August 11, 1997.

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NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share for the year ended December 31, 1996 was \$0.06 (December 31, 1995 -loss (\$0.01)) and was calculated based on the weighted average number of shares outstanding during the year of 14,449,050 (December 31, 1995 - 9,345,300).

There are no factors that would have a significant dilutive effect on the net income (loss) per common share.

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INCOME TAXES

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and Provincial income tax rate of 44.4 percent as follows:

	<i>Year ended December 31</i>	
	<i>1996</i>	<i>1995</i>
Expected income tax expenses (recovery)	\$ 576,311	\$ (54,052)
Increase (decrease) resulting from:		
Non-deductible crown charges and other payments	268,176	8,276
Federal Resource Allowance	(304,196)	-
Alberta Royalty Tax Credit	(31,757)	(4,508)
Other	287	3,030
Tax benefit of current year (prior year) losses	(95,774)	47,254
	\$ 413,047	\$ -

At December 31, 1996 the Company had tax deductions available which exceeded net book value by \$517,000. The tax deductions include loss carry forwards of \$490,000 which were acquired through the acquisition of Golden Coast Energy Ltd. These loss carry forwards, if unutilized, would expire at various dates through December 31, 2002.

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SUBSEQUENT EVENT

On January 30, 1997 the Company filed a preliminary prospectus to issue common shares for minimum gross proceeds of \$3.0 million and maximum gross proceeds of \$5.0 million, at a price to be determined. The 1,704,333 Special Warrants issued on December 5, 1996 will also be qualified with this offering.

THREE YEAR STATISTICAL REVIEW



Financial	1996	1995	1994
Gross production revenue	\$ 4,795,797	\$ 313,187	\$ 137,387
Cash flow(deficiency)	\$ 2,252,368	\$ (21,226)	\$ (12,907)
Per share	\$ 0.16	\$ -	\$ -
Net income(loss)	\$ 884,951	\$ (121,739)	\$ (54,411)
Per share	\$ 0.06	\$ (0.01)	\$ (0.01)
Capital expenditures - net	\$ 9,957,147	\$ 803,044	\$ 890,996
Total assets	\$ 15,921,869	\$ 1,802,051	\$ 1,415,588
Long term debt	\$ 5,140,000	\$ 85,000	\$ -
Shareholders' equity	\$ 7,003,133	\$ 1,284,043	\$ 1,061,172
Common shares outstanding	21,000,463	11,092,500	9,303,000
Weighted average number of shares outstanding	14,449,050	9,345,300	7,246,074
Share price - market high	\$ 0.80	\$ 0.21	\$ (1)
Share price - market low	\$ 0.15	\$ 0.10	\$ (1)
Volume traded	3,345,738	215,250	(1)

(1) Trading of the Company's shares commenced on January 18, 1995.

Operating

Production

Oil and NGL's Production(Bopd)	479	39	23
Natural Gas (Mcf)	395	81	-
Oil Equivalent (Boed)	518	47	23
Exit Rate (Boed)	1,250	95	25

Average selling price

Oil and liquids per Bbl	\$ 26.46	\$ 20.02	\$ 18.29
Natural gas per Mcf	\$ 1.11	\$ 0.90	\$ -
Netback per Boe	\$ 14.50	\$ 8.00	\$ 9.44

Reserves(proven and probable)

Oil and liquids- Mbbbls	3,365	343	180
Natural gas- Mmcf	6,821	1,136	-
Oil Equivalent- Mboe	4,047	457	180
Reserve values with probable risked at 50 % and using a 15% discount rate (\$000's)	\$ 34,529	\$ 3,031	\$ 1,100

Wells Drilled

Oil	7	2	5
Natural Gas	-	-	-
Dry and Abandoned	1	1	3
	8	3	8
Net wells drilled	2.17	0.86	1.98
Success Ratio	88%	66%	63%

CORPORATE INFORMATION



DIRECTORS

Thomas W. Buchanan ⁽¹⁾
Calgary, Alberta

Kelly D. Cowan
Calgary, Alberta

Gary D. Schellenberg
Vancouver, B.C.

Byron J. Seaman ⁽¹⁾
Calgary, Alberta

M.H. (Mike) Shaikh ⁽¹⁾
Calgary, Alberta

⁽¹⁾ Members of Audit Committee

OFFICERS AND KEY PERSONNEL

John B. (Joe) Beardsworth
Vice President Engineering and Operations

Thomas W. Buchanan
President and Chief Executive Officer

Kelly D. Cowan
Senior Vice President and Chief Operating Officer

David I. Holm
Corporate Secretary

Randall M. Masuda
Geophysicist

Mark T. Oliver
Vice President Exploration

Mark N. Walker
Controller

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company of Canada
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BANKERS

National Bank of Canada
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AUDITORS

Price Waterhouse
Calgary, Alberta

LEGAL COUNSEL

MacKimmie Matthews
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ENGINEERING CONSULTANTS

Outtrim Szabo Associates Ltd.
Calgary, Alberta

STOCK EXCHANGE

The Alberta Stock Exchange
Trading Symbol "FDE"

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